

FSA Administrative & Related Requirements

CHAPTER 3

This chapter describes aid-related requirements a school must meet to participate in the Federal Student Aid programs. Many of these requirements require coordination with other school offices. For instance, the requirements for adequate staffing, the incentive compensation prohibition, and hiring restrictions related to the misuse of government funds might apply to your school's human resources office. Similarly, your school's academic divisions and its business office will need to be aware of the standards for satisfactory progress policies, readmission of service members, and in-state tuition rates for service members and their families.

ADMINISTRATIVE REQUIREMENTS FOR THE FINANCIAL AID OFFICE

Consistency of information and conflicting information

A school must have a system of identifying and resolving discrepancies in all FSA-related information received by any school office. A school must resolve discrepancies for all students, not just those selected for verification. Resolution includes determining what information is correct and documenting the school's findings in the student's file.

Such a system must include a review of :

- ♦ All student aid applications, need analysis documents, multiple reporting records, potential overawards from COD, statements of educational purpose, statements of registration status, and eligibility notification documents presented by or on behalf of each applicant.
- ♦ The Student Aid Report/ISIR for a student. Even if a school has already verified the information on a student's SAR/ISIR, it must review all information on subsequent SARs/ISIRs.
- ♦ Any documents, including copies of federal tax return and tax account transcripts, that are normally collected by the school to verify information received from the student or other sources.
- ♦ Any other information submitted or normally available to the school regarding a student's citizenship, previous educational experience, or Social Security number or other factors relating to the student's eligibility for FSA funds.

For instance, if a student receives an academic scholarship through one school office, that office must notify the aid administrator of these benefits to ensure that the amounts are correctly reported on the student's aid application and are counted as estimated financial assistance for the Campus-based and Direct Loan programs.

Related information

- Financial Standards, Chapter 4
- Consumer Information, Campus Safety, Reports, & Other Requirements, Chapter 6
- Records, Electronic Processes, Chapter 7

Administrative capability

To participate in the FSA programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the FSA programs.

34 CFR 668.16

FSA Assessments

To assess your school's compliance with these requirements, see the FSA Assessment modules on "Automation" and "Satisfactory Academic Progress" at (<http://ifap.ed.gov/qahome/fsaassessment.html>).

Students who turn out to be ineligible

Sometimes resolving conflicting information will reveal that a previously eligible student who received Title IV aid was actually ineligible, for example, a student who indicated on his FAFSA that he had a high school diploma when he really did not. In such cases the student must return* all the Title IV aid he received (except earned FWS wages) while ineligible, even if it was in a previous award year. Also, you are required to update COD data to reflect the adjustments. If you suspect that the student intended to deceive rather than made a mistake, see “OIG referrals” on this page.

* While the student is generally responsible for repaying aid in such cases, there might be situations where the school is responsible. See DHC-Q4 at (www2.ed.gov/policy/highered/reg/hearulemaking/2009/hsdiploma.html).

Other examples include:

- ♦ A school’s admissions or registrar’s office must provide the aid office with any information it has that might affect a student’s eligibility, such as the student’s enrollment in an ineligible program or in summer classes immediately preceding a fall term of enrollment.
- ♦ A school’s business office must inform the aid office whenever it receives information about a student receiving an outside scholarship.

There is a distinction between how long you need to be alert for conflicting information and how long you have to actually resolve a conflict. Even if the processing year has ended, you must continue to resolve conflicting information unless

- ♦ all aid for the period of enrollment has been disbursed,
- ♦ at the time of disbursement there was no conflicting information, and
- ♦ the student is no longer enrolled at the school (and is not intending to reenroll).

You may not ignore a document in your files unless a student is no longer enrolled. If you have conflicting information in your files, you must resolve it as expeditiously as possible. If you become aware of conflicting information for a student who is no longer enrolled and there is aid to be disbursed, you must resolve the conflict before making the late or post-withdrawal disbursement.

Death of a student

If a student dies during the award year, the school isn’t required to resolve conflicting information.

If aid that the school was unaware of is received after the end of a period of enrollment for a student who is intending to re-enroll, that aid must be treated as estimated financial assistance for either the period of enrollment just completed or for the subsequent period of enrollment. See the discussion of estimated financial assistance and packaging in *Volume 3*.

Remember, if any office at your school has information that might affect a student’s eligibility for FSA funds, it must provide that information to the school’s designated coordinating official (described later). That person must forward it to the financial aid office, where procedures must be in place to ensure that any conflicting information is resolved and documented before the student receives any (or any additional) FSA funds.

OIG referrals

34 CFR 668.16(g)

Conflicting information between 2016–2017 and 2017–2018

Clarification

For the transition to the use of prior-prior year information on the FAFSA, income and tax data from 2015 will be used for the above consecutive award years and may create cases of conflicting information. To reduce burden on schools, the following measures will be in place.

FAFSA on the Web will have warning edits for 2017–2018 that will pop up when the student fills out the application and enters an income or tax amount that differs from the amount reported on the 2016–2017 FAFSA. These edits will not be triggered if the 2016–2017 FAFSA was based on estimated data or if between the two years there was a change in the student's dependency status or in the student's or parents' marital status. If the student does not correct the 2017–2018 data based on the above warnings, edit and comment codes will be included on the SAR and ISIR. Schools may choose to reconcile these edits with the student, but they are not required to do so except as explained below.

The CPS will compare the student's last 2016–2017 transaction with the 2017–2018 ISIR. If the comparison reveals conflicting information that would result in a significant change in the EFC, the CPS will flag the 2017–2018 ISIR and SAR with a "C" code and a new comment code 399 informing the school that it must resolve the conflicting information. If comment code 399 does not appear, schools are not required to determine if the income and tax data differ between the two years. However, schools must still resolve other instances of conflicting information (for example, in a student's high school completion status). The CPS will not flag an ISIR for resolution of conflicting information, even if there is a significant change to the EFC, when PJ was performed in 2016–2017 or 2017–2018 or between the two award years there was a change in the student's dependency status or his or his parents' marital status.

Continued on next page

Conflicting information between 2016–2017 and 2017–2018, continued

As with general cases of conflicting information, the following also apply when an ISIR has comment code 399:

- The conflicting information must be resolved even if the application was not selected for verification.
- Conflicting information must be resolved before any PJ adjustment.
- Conflicting information does not need to be resolved if the student is no longer enrolled and does not intend to re-enroll. However, if she later enrolls or re-enrolls for any period of 2016–2017 or 2017–2018, you must then resolve the conflicting information.

For more information, including details pertaining to the resolution of conflicting information in these case, see DCL GEN-16-14 and the announcement of October 21, 2016. See also the frequently asked questions beginning with question G-Q12 in the Early FAFSA section of the IFAP website.

Sources of Conflicting Information

- tax returns or schedules
- Federal tax transcripts
- other information provided by the student to the financial aid office
- supplemental financial aid applications
- other offices within the school
- offices at other educational institutions (not just aid offices)
- the Department
- scholarships and information from outside sources
- state agencies such as scholarship and vocational rehabilitation agencies, Workforce Investment Act offices, etc.
- tips from outside sources
- transcripts from other colleges
- SARs or ISIRs
- verification
- C flags
- reject codes
- comment codes

Examples of Conflicting information

Examples of conflicting information

- citizenship status,
- accuracy of SSN,
- default or overpayment status,
- changes in student's academic status (including grade level progression),
- elements considered in determining Cost of Attendance
- other student financial assistance or resources, and
- inconsistent information used in calculating the student's EFC.

Conflicting information does not include such things as

- a household size that differs from the number of exemptions on a tax return;
- dependency under IRS rules vs. ED definition of dependency;
- a roster of candidates for an outside scholarship, as opposed to a list of recipients;
- privacy-protected information, such as information from professional counselors, chaplains, doctors, etc.;
- assumptions made by the Central Processing System; and
- a student who has an expired immigration document but whose secondary confirmation match is successful.

OIG referrals

A school must refer to the Department’s Office of Inspector General (OIG) any credible information indicating that an applicant for federal student aid may have engaged in fraud or other criminal misconduct in connection with his or her application.

Common misconduct includes false claims of independent student status, false claims of citizenship, use of false identities, forgery of signatures of certifications, and false statements of income. Remember that fraud is the intent to deceive as opposed to a mistake. If you suspect such intent on the part of a student, report it to the OIG by phoning 1-800-MISUSED.

Schools must also refer to the OIG any third-party servicer who may have engaged in fraud, breach of fiduciary responsibility, or other illegal conduct involving the FSA Programs.

It is always appropriate for a financial aid administrator to consult with a school’s legal counsel prior to referring suspected cases of fraud or misconduct to an agency outside of the school. Referrals to the IG are also mentioned in the *Application and Verification Guide*.

Coordinating official

Coordinating official—definition of capable individual

34 CFR 668.16(b)(1)

An individual is “capable” if he or she is certified by the state in which the school is located, if state certification is required. Other factors affecting capability include the individual’s successful completion of FSA program training provided or approved by the Department and previous experience and documented success in FSA program administration.

A school must designate a capable individual to be the coordinating official. This person performs a key role in demonstrating the school’s administrative capability. She administers the FSA programs and coordinates the aid from those programs with that from all other sources (federal, state, school, and private). As noted earlier, all the information the school receives and any changes processed by an office of the school that might affect a student’s FSA eligibility are communicated to the coordinating official and by her to the financial aid office.

For example, when aid administrators create a student’s financial aid package, they must consider financial assistance (scholarships, grants, awards, etc.) the student is receiving from external and internal sources to ensure that he is not overawarded. Therefore, any information the school’s admissions office or an academic department gets about financial assistance a student is receiving must be made available to the coordinating official. Another example is that the financial aid office must be informed of any changes in a student’s enrollment status. Therefore, whenever he adds or drops a class, changes from credit to audit, or withdraws from school, the change must be communicated to the coordinating official.

Separation of function

For further guidance on the separation of functions, contact the appropriate school participation division.

Counseling

Schools must provide adequate financial aid counseling to all enrolled and prospective students and their families. In addition, schools must also provide entrance and exit counseling for student borrowers in the Perkins and Direct Loan programs. For a complete discussion of Direct Loan counseling requirements, see Chapter 6. For a discussion of Perkins counseling and disclosure requirements, see Volume 6.

Adequate staffing

To manage a school's aid programs effectively, the aid administrator must be supported by an adequate number of professional and clerical personnel. The number of staff that is adequate depends on the number of students aided, the number and types of programs in which the school participates, the number of applicants evaluated and processed, the amount of funds administered, and the type of financial aid delivery system the school uses. What may be adequate at one school may be insufficient at another. The Department will determine on a case-by-case basis whether a school has an adequate number of qualified persons, based on program reviews, audits, and information provided on the school's application for approval to participate in the FSA programs.

System of checks and balances

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal checks and balances. This system, at a minimum, must separate the functions of authorizing payment and disbursing or delivering funds so that no single person or office exercises both functions for any student receiving FSA funds.

Small schools are not exempt from this requirement even though they may have limited staff. Individuals working in either authorization or disbursement may perform other functions as well but not both authorization and disbursement. These two functions must be performed by individuals who are not members of the same family and who do not together exercise substantial control over the school. If a school performs any aspect of these functions via computer, no one person may have the ability to change data that affect both authorization and disbursement.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority or the ability to perform both functions.

Family definition and example

A member of a person's family is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse.

Example: Charlie works in the financial aid office at Krieger University, and he notices that there is an opening in the business office. He thinks of telling his daughter Sarah about the job but then realizes that because the business office disburses student aid, she would not be able to work there while he is responsible for awarding aid in the financial aid office.

34 CFR 668.15(f)(3)

Debarment and suspension

To protect the public interest, it is the policy of the federal government to conduct business only with responsible individuals. To implement this policy, the government takes debarment and suspension actions against individuals whom it determines constitute a current risk to federal agencies.

Executive Order 12549
Federal Acquisition Regulations
(48 CFR Part 9, Subpart 9.4)
34 CFR Part 85

Similar debarment and suspension limitations apply to lenders, third-party servicers, loan servicers, and any individuals who provide services described in 34 CFR 668.2 or 682.200 to an FSA recipient whether or not they are employed by the school.

Covered transactions

For purposes of the debarment/suspension rules, covered transactions include:

- disbursement of FSA funds to a student or borrower,
- certification by an educational institution of eligibility for an FSA loan, and
- acquisition or exercise of any servicing responsibility for a grant, loan, or work study assistance under an FSA program.

Checking debarment/suspension status online

You can search for entity registration and exclusion records on the The System for Award Management (SAM) at

<https://www.sam.gov/portal/SAM/##11>

In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system should only allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

OWNERSHIP, EMPLOYEES, AND CONTRACTORS

Debarment of school owners or staff

If one of the principals of a school is debarred or suspended by a federal agency, that person is prohibited from participating in any FSA program as long as the agency's procedures include due process protections that are equivalent to those provided by ED.

The principals of a school include its owners, directors, officers, partners, employees, and anyone else with management or supervisory responsibilities. A principal may also be someone who is not employed by the school but who has critical influence on or substantive influence over a covered transaction (such as the receipt of Pell Grant or Campus-Based funds). For example, a principal may be someone, employed by the school or not, who

- ♦ is in a position to handle federal funds;
- ♦ is in a position to influence or control the use of those funds; or
- ♦ occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to perform the covered transaction.

Schools participating in the FSA programs have a fiduciary responsibility to safeguard FSA funds and ensure those funds are used for the benefit of the students for whom they are intended. We expect participating institutions to thoroughly examine the background of individuals they employ (or are considering employing) in management or supervisory positions. If a school discovers that a person employed in a management or supervisory capacity has been suspended or debarred by a federal agency, the school must remove that person from such a position or risk losing its FSA eligibility. Moreover, a school may not enter into a relationship (and must terminate an ongoing relationship) with a lender, third-party servicer, or loan servicer the school determines has been debarred or suspended.

Certifying current or prospective employees or contractors

Before a school may receive FSA funding, it must certify that neither the school nor its employees have been debarred or suspended by a federal agency. You can find this certification in the Program Participation Agreement and in the web-based FISAP package available to schools participating in the Campus-Based programs.

The certification provided by the school is a material representation of fact relied upon by the Department when it enters into a participation agreement with the school. Moreover, a school is expected to have knowledge and information normally possessed by a prudent person in the ordinary course of business dealings. Although the Department doesn't dictate how a school must ensure that its principals/employees have not been debarred or suspended by a federal agency, we do hold the school responsible for any information it could reasonably have been expected to know in the course of ordinary operations. In addition, we expect the school to expend a reasonable amount of effort ensuring that it and its employees are in compliance. If the Department learns that a prospective participant knowingly rendered an erroneous certification, in addition to other remedies available, the Department may terminate the participation of the institution.

A school chooses the method and frequency for making a determination about the eligibility of its principals. This might include asking current and prospective employees and contractors, in person or in writing, about their debarment or suspension histories. In addition, a school might also examine the *List of Parties Excluded from Federal Procurement and Nonprocurement Programs* to find out if an individual or organization is debarred or suspended. A school should discuss with its attorney the procedures appropriate to its circumstances.

The employees who award FSA funds and those who disburse them should always be included in those whose backgrounds are examined. In addition, employees who participate in other transactions from which the regulations exclude individuals who have been debarred or suspended should be included. A school should consult with its attorney on the individuals it must certify.

The debarment or suspension of a person who is not a principal of the school and who does not work in the financial aid office will not affect the school's FSA eligibility so long as that person is not involved in any covered transactions.

Control and ownership interest

Definition of control

34 CFR 600.31(b)

Ownership interest

34 CFR 668.15(f)

Notifying the Department of change of control

A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control trigger a review to determine if the school is financially responsible (see *Chapter 5*).

Disqualified individuals & PPA

34 CFR 668.14(b)(18)(i)

Lower-tier transactions

Examples of common lower-tier covered transactions are a school's contracts with a financial aid consultant service or with a loan collection or billing agency.

Sample certification statement from lower-tier organization

The Department disseminated the following language in April 1989 as a model that schools may use to obtain the required certification statement from a lower-tier organization.

"The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in this transaction by any Federal department or agency.

Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal."

Federal Register, May 26, 1988, page 19211, disseminated in Dear Colleague Letter GEN-89-21.

Referring criminal conduct to OIG

The regulations provide the following examples of criminal misconduct:

- False claims by the school for FSA program assistance;
- False claims of independent student status;
- False claims of citizenship;
- Use of false identities;
- Forgery of signatures or certifications;
- False statements of income; and
- Payment of any commission, bonus, or other incentive payment based in any part, directly or indirectly, upon success in securing enrollments or the award of financial aid to any person or entity engaged in any student recruitment or admission activity or in making decisions regarding the award of FSA program funds. See the next section on incentive compensation.

Lower-tier covered transactions

A school must not enter into lower-tier covered transactions with a debarred or suspended individual or organization. A lower-tier covered transaction is any transaction between a participant in a covered transaction (such as the school) and another individual or organization, if that transaction stems from a covered transaction. A school must obtain a certification from any lower-tier organization if the amount of the lower-tier transaction is \$25,000 or more. The lower-tier organization must inform the school in writing if the organization or its principals are debarred or suspended. Therefore, the certification does not need to be renewed from year to year.

Crimes involving FSA program funds

Schools are prohibited from having as principals those who have engaged in the misuse of government funds or from employing or contracting with other organizations that employ such persons. Specifically, a school must not knowingly

- ♦ employ, in a capacity that involves the administration of the FSA programs or the receipt of funds under those programs, an individual who has been convicted of, or has pled *nolo contendere* or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds;
- ♦ contract with a school or third-party servicer that has been terminated from the FSA programs for a reason involving the acquisition, use, or expenditure of federal, state, or local government funds or that has been administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds; or
- ♦ contract with or employ any individual, agency, or organization that has been, or whose officers or employees have been:
 - (1) convicted of, or pled *nolo contendere* or guilty to, a crime involving the acquisition, use, or expenditure of federal, state, or local government funds; or
 - (2) administratively or judicially determined to have committed fraud or any other material violation of law involving federal, state, or local government funds.

Code of conduct

If a school participates in an FSA loan program, it must publish and enforce a code of conduct that includes bans on the following:

- ♦ revenue-sharing arrangements with any lender,
- ♦ steering borrowers to particular lenders or delaying loan certifications, and
- ♦ offers of funds for private loans to students in exchange for providing concessions or promises to the lender for a specific number of FSA loans, a specified loan volume, or a preferred lender arrangement.

The code of conduct applies to the officers, employees, and agents of the school and must also prohibit employees of the financial aid office from receiving gifts from a lender, guaranty agency, or loan servicer.

The code must also prohibit financial aid office staff (or other employees or agents with responsibilities with respect to education loans) from accepting compensation for

- ♦ any type of consulting arrangement or contract to provide services to or on behalf of a lender relating to education loans; and
- ♦ service on an advisory board, commission, or group established by lenders or guarantors, except for reimbursement for reasonable expenses.

Compensation for serving on an advisory board

A person employed in a financial aid office who serves on an advisory board established by a lender or group of lenders cannot receive anything of value from the lender but can receive reimbursement for reasonable expenses associated with participation. A school must report annually to ED any such reasonable expenses paid or provided to any employee who is employed in the financial aid office or who otherwise has responsibilities with respect to education loans or other financial aid of the institution.

The report must include the following:

- ♦ the amount of each specific instance of reasonable expenses paid or provided;
- ♦ the name of the financial aid official, other employee, or agent to whom the expenses were paid or provided;
- ♦ the dates of the activity for which the expenses were paid or provided; and
- ♦ a brief description of the activity for which the expenses were paid or provided.

Advisory board compensation

HEOA Section 1011
Section 140 of the Truth in Lending Act
Disclosures of Reimbursements for Service
on Advisory Boards
HEOA section 1011 HEA section 485(m)

CONTRACTS WITH THIRD-PARTY SERVICERS

Third-party servicer

34 CFR sections 668.1, 2, 11, 14–16, 23, 25, 81–84, 86–89, and Subpart H.
DCL GEN-12-08 and GEN-15-01 Revised
August 30, 2016

Annual compliance audit

A third-party servicer must submit a compliance audit each year. If the servicer contracts with several schools, a single audit can be submitted that covers its administrative services for all those schools. For more information, see www2.ed.gov/about/offices/list/oig/nonfed/sfa.html.
34 CFR 668.23



Third-Party Servicer Reporting Requirement

Entities that meet the definition of a Third Party Servicer, as defined in 34 C.F.R. 668.2 and GEN-15-01 (Revised August 30, 2016), are required to update their Third Party Servicer Data Form within 10 days of the date, that one of the following occurs:

- The servicer changes its name;
- The servicer changes the address or contact information for its primary location or additional location;
- The servicer adds or terminates a contract with an eligible Title IV institution; or
- The servicer buys, sells, or merges with another third party servicer.

34 C.F.R. § 668.25(e)(1)(i).

Contact Information

If you have questions about this announcement or the attached Third Party Servicer Data Form, contact the Third Party Servicer Oversight Group (816) 268-0543. You may also e-mail fsapc3rdpartyserviceroversight@ed.gov.

Questions and Answers about and Examples of Third-Party Servicer Activities are available in the attachment to DCL-GEN-16-15 at

<https://ifap.ed.gov/dpclatters/GEN1615.html>

Schools are permitted to contract with consultants for assistance in administering the FSA programs. However, the school ultimately is responsible for the use of FSA funds and will be held accountable if the consultant mismanages the programs or program funds.

A third-party servicer administers any aspect of the school's FSA participation. Examples of functions that third-party servicers perform include the following:

- ♦ processing student financial aid applications, performing need analysis, and determining student eligibility or related activities;
- ♦ certifying loans, servicing loans, or collecting loans;
- ♦ processing output documents for payment to students, and receiving, disbursing, or delivering FSA funds;
- ♦ conducting required student consumer information services;
- ♦ preparing and certifying requests for cash monitoring or reimbursement funding;
- ♦ preparing and submitting notices and applications required of eligible and participating schools, or preparing the *Fiscal Operations Report and Application to Participate* (FISAP); **NEW**
- ♦ performing default prevention/aversion activities, such as contacting student loan borrowers to discuss repayment options or borrower account history, assisting with completion and/or collection of borrower deferment or forbearance forms, performing entrance/exit loan counseling, implementation and oversight of a written default management plan, and /or accessing borrower information contained in Department systems; **NEW**
- ♦ accessing Department systems (NSLDS, COD, CPS, etc.) that contain personally identifiable student information, and/or accessing personally identifiable student information downloaded from a Department system to perform any Title IV function or service on behalf of an eligible institution; **NEW**
- ♦ determining student eligibility and related activities, such as completing verification, performing satisfactory academic progress evaluations, determining award amounts, performing Return of Title IV aid calculations, and/or reconciling Title IV program accounts; and **NEW**
- ♦ processing enrollment verification for deferment forms or NSLDS enrollment reporting.

For more examples of Third-Party Servicer Activities see DCL GEN 15-01, January 9, 2015, and DCL GEN-16-15, August 18, 2016. **TIP**

Requirements of a third-party servicer contract

Under a contract with a school, a third-party servicer agrees to comply with all Title IV provisions, which includes those that refer solely to schools as well as to servicers, and to be jointly and severally liable with the school for a violation by the servicer of any of those provisions.

A school must ensure that its contracts accurately and specifically detail the functions that the servicer (or its subcontractor(s), (if applicable) performs on behalf of the institution, and those functions that are required to be completed by the institution. The contract must identify the third-party servicer by its legal name and include any other name the servicer does business as (d/b/a). The contract must provide the physical address and primary phone number of the servicer's primary location, as well as the name, title, phone number, and e-mail address of the president or chief executive officer of the entity. If a third-party servicer subcontracts any of its contractual responsibilities, the contract must identify the subcontractor and clearly describe the functions performed on behalf of the servicer and institution by the subcontractor.

The servicer agrees to use any Title IV funds (and interest or earnings on them) in accordance with the regulations and, if it disburses those funds, to confirm student eligibility and make the required returns to Title IV funds (see *Volume 5*) when a student withdraws.

A third-party servicer must refer to the Department's inspector general any suspicion of crime relating to FSA program administration, including any information that there is reasonable cause to believe the school might have engaged in fraud or other criminal misconduct pertaining to the FSA programs (see the examples in the margin).

If the contract is terminated or the servicer files for bankruptcy or ceases to perform any functions prescribed under the contract, the servicer must return to the school all unexpended FSA funds and records related to the servicer's administration of the school's participation in the FSA programs.

TIP

For more information about elements to include in Third-Party Servicer contracts see DCL GEN 15-01, January 9, 2015, and DCL GEN-16-15, August 18, 2016.

Third-party servicer definition

An individual or a state or a private, profit or nonprofit organization that enters into a contract with an eligible school to administer, through manual or automated processing, any aspect of the school's participation in any Title IV program. 34 CFR 668.2

Notifying ED of third-party servicer contracts

Schools must notify the Department of new third-party servicer contracts and changes to existing contracts, as described in *Chapter 5*.

If a school has submitted information regarding its third-party servicers as part of applying for certification or recertification, no additional submission is required.

Institutional liability

A school remains liable for any and all FSA-related actions taken by the servicer on its behalf.

NEW

Third-Party Servicers and Information Security

Institutions are subject to the information security requirements established by the Federal Trade Commission (FTC) for financial institutions. Third-Party Services must provide the same security.

Third-Party Servicers and Privacy

Third-party servicers must comply with all aspects of the Family Educational Rights and Privacy Act (FERPA) with regard to the third-party servicer's receipt and use of any education records provided by the institution.

Excluded functions

Examples of functions that are not considered administering the participation in a Title IV program:

- ♦ performing lockbox processing of loan payments;
- ♦ performing normal electronic fund transfers (EFTs) after being initiated by the school;
- ♦ acting as a Multiple Data Entry Processor (MDE);
- ♦ financial and compliance auditing;
- ♦ mailing documents prepared by a school or warehousing school records;
- ♦ participating in a written arrangement with other eligible schools to make eligibility determinations and FSA awards for certain students (see *Chapter 2*); and
- ♦ providing computer services or software.

A person or organization performing these functions is not considered to be a third-party servicer and is not subject to third-party servicer requirements.

Excluded entities

An employee of a school is not a third-party servicer. For this purpose, an employee is one who: is paid directly by the school; works full or part time or on a temporary basis; performs all duties under school supervision, whether on site or remotely; is not employed by or associated with a third-party servicer; and is not a third-party servicer for any other school.

A school may not have as a third-party servicer one that

- ♦ has been limited, suspended, or terminated by the Department within the preceding five years;
- ♦ has had, during the servicer's two most recent audits, a finding that resulted in the servicer being required to repay an amount greater than five percent of the funds that the servicer administered under the Title IV programs for any year; or
- ♦ has been cited during the preceding five years for failure to submit audit reports required under Title IV in a timely fashion.

INCENTIVE COMPENSATION PROHIBITION

Schools may not provide any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any individual or entity engaged in recruiting or admission activities or in making decisions about awarding FSA program funds.

As stated previously, only two types of activities are subject to the incentive compensation ban: securing enrollment (recruitment) and securing financial aid. No other activities are subject to the ban.

The incentive compensation prohibition applies to all individuals with responsibility for recruitment or admission of students or making decisions about awarding FSA funds. As shown in Table 1, the Department draws a distinction between recruitment activities that involve working with individual students and policy-level determinations that affect recruitment, admission, or the awarding of FSA funds. The Department expects that employees who have titles such as enrollment counselors, recruitment specialists, recruiters, and enrollment managers have sufficiently direct involvement in recruitment that the incentive compensation ban applies to them. Senior managers and executive level employees who are only involved in the development of policy and do not engage in individual student contact or the other covered activities listed in Table 1 will not generally be subject to the incentive compensation ban.

When other activities are coupled with recruitment or securing financial aid, a school must consider how they compensate persons or entities to avoid payments that are prohibited. Table 1 illustrates how these principles would be applied to activities that schools carry out in support of recruitment and financial aid. Payments to persons or entities that undertake or have responsibility for recruitment and decisions related to securing financial aid are subject to the incentive compensation ban even if their work also includes other activities.

Schools may use factors such as seniority or length of employment as a basis for compensating employees covered by the incentive compensation prohibition. Many other qualitative factors may also be used so long as they are not related to the employee's success in securing student enrollments or the award of financial aid. These factors may include such things as job knowledge and professionalism; skills such as analytic ability, initiative in work improvement, clarity in communications, and use and understanding of technology; traits such as accuracy, thoroughness, dependability, punctuality, and adaptability; peer rankings; student evaluations; and interpersonal relations.

Incentive compensation in the law and regulations

The prohibition of incentive compensation appears in Section 487(a)(20) of the HEA and in the Student Assistance General Provisions regulations at 34 CFR 668.14(b)(22).

On March 22, 2013, the Department published a revision to the preamble of the October 29, 2010, final regulations in accordance with the remand in *Association of Private Sector Colleges and Universities v. Duncan* 683F.3d 427 (D.C. Cir. 2012).

Incentive compensation

On March 17, 2011, the Department issued additional guidance on incentive compensation. In addition to the tables included in this text, that Dear Colleague Letter provided examples of how the incentive compensation rules are applied, as well as guidance on "tuition sharing" and "profit sharing" and other forms of compensation. Since that time, the Department posted additional related questions and answers to address study abroad situations for Title IV-eligible students and to clarify when bundled services provided by a third party are subject to the incentive compensation ban.

See GEN-11-05 and the webpage at (www2.ed.gov/policy/highered/reg/hearulemaking/2009/compensation.html).

"Safe harbors" exceptions

Regulations issued on October 29, 2010, eliminated the safe harbors effective July 1, 2011.

Definitions

See Table 3 for regulatory definitions of

- Commission, bonus, or other incentive payment
- Securing enrollments or the award of financial aid
- Entity or person engaged in any student recruitment or admission activity or in making decisions about the award of financial aid
- Enrollment

Two-part test to evaluate if a payment is incentive compensation

1. Is the payment a commission, bonus, or other incentive payment, defined as an award of a sum of money or something of value paid to or given to a person or entity for services rendered?
2. Is the commission, bonus, or other incentive payment provided to any person based, in any part directly or indirectly, upon success in securing enrollments or the award of financial aid?

If the answer to each question is “yes,” the payment would be prohibited.

See *Session 25: General Provisions and Non-Loan Program Issues—Institutional*, FSA Conference, December 2010.

Table 1 : Activities covered by prohibition on incentive compensation

Covered Activities	Exempt Activities
<i>Activities that are ALWAYS subject to the ban on incentive compensation</i>	<i>Activities NOT subject to the ban on incentive compensation include the following, unless the activities of the employee or entity also involve a covered activity</i>
Recruitment activities, including: <ul style="list-style-type: none"> • Targeted information dissemination to individuals; • Solicitations to individuals; • Contacting potential enrollment applicants; aiding students in filling out enrollment application information 	Marketing activities, including: <ul style="list-style-type: none"> • Broad information dissemination; • Advertising programs that disseminate information to groups of potential students; • Collecting contact information; • Screening pre-enrollment information to determine whether a prospective student meets the requirements that an institution has established for enrollment in an academic program; • Determining whether an enrollment application is materially complete, as long as the enrollment decision remains with the institution
Services related to securing financial aid, including completing financial aid applications on behalf of prospective applicants (including activities that are authorized by the Department, such as the FAA Access tool, which can be used to enter, correct, verify, or analyze financial aid application data)	Student support services offered after the point at which financial aid is allowed to be disbursed for a payment period, including: <ul style="list-style-type: none"> • General student counseling; • Career counseling; • Financial aid counseling, including loan management; • Online course support—both professional services and computer hardware and software; • Academic support services, including tutoring, aimed at student retention, whether that support is provided prior to attendance in classes or after attendance has begun.
	Policy decisions made by senior executives and managers related to the manner in which recruitment, enrollment, or financial aid will be pursued or provided, such as decisions to admit only high school graduates

Table 2 : Types of payments covered by prohibition on incentive compensation	
Types of payments that are direct or indirect payment of incentive compensation	Types of payments that are not direct or indirect payment of incentive compensation
“Tuition sharing” as a measure of compensation when based on a formula that relates the amount payable to the entity to the number of students enrolled as a result of the activity of the entity	Tuition as a source of revenue from which compensation is paid to an unrelated third party for a variety of bundled services (Example 2-B in GEN-11-05)
Profit sharing plans from which distributions are made to individuals based on the number of students enrolled by virtue of covered activities by the recipient [668.14(b)(22)(ii)(B)]	Profit sharing plans, including 401(k) type plans, from which distributions are made to individuals on a basis that is neutral with respect to the role the recipient plays in student recruitment or the securing of financial aid
Salary adjustments that take the form of incentive payments based directly or indirectly on success in securing enrollments or financial aid	Employee benefits plans offered to all employees on a basis that is neutral with respect to the role the recipient plays in student recruitment or the securing of financial aid
Payments based on the application of an admissions policy	Cost of living adjustments (COLAs)
Bonus or other payments based on success in securing enrollments or financial aid	Compensation adjustments based upon seniority
	Payments to faculty based upon student class size or academic achievement
	Payments to senior executives with responsibility for the development of policies that affect recruitment, enrollment, or financial aid
	Payments based upon securing student housing or other student services, including career counseling
	Volume-driven arrangements based on services that are not recruitment or securing of financial aid

Table 3 : Definitions

<p>Commission, bonus, or other incentive payment A sum of money or something of value, other than a fixed salary or wages, paid to or given to a person or an entity for services rendered.</p> <p>Securing enrollments or the award of financial aid Activities that a person or entity engages in at any point in time through completion of an educational program for the purpose of the admission or matriculation of students for any period of time or the award of financial aid to students.</p> <p>(1) These activities include contact in any form with a prospective student, such as, but not limited to, contact through preadmission or advising activities, scheduling an appointment to visit the enrollment office or any other office of the institution, attendance at such an appointment, or involvement in a prospective student's signing of an enrollment agreement or financial aid application.</p> <p>(2) These activities do not include making a payment to a third party for the provision of student contact information for prospective students provided that such payment is not based on</p> <p>(i) Any additional conduct or action by the third party or the prospective students, such as participation in preadmission or advising activities, scheduling an appointment to visit the enrollment office or any other office of the institution or attendance at such an appointment, or the signing, or being involved in the signing, of a prospective student's enrollment agreement or financial aid application; or</p> <p>(ii) The number of students (calculated at any point in time of an educational program) who apply for enrollment, are awarded financial aid, or are enrolled for any period of time, including through completion of an educational program.</p>	<p>Entity or person engaged in any student recruitment or admission activity or in making decisions about the award of financial aid (1) With respect to an entity engaged in any student recruitment or admission activity or in making decisions about the award of financial aid, any institution or organization that undertakes the recruiting or the admitting of students or that makes decisions about and awards FSA funds; and</p> <p>(2) With respect to a person engaged in any student recruitment or admission activity or in making decisions about the award of financial aid, any employee who undertakes recruiting or admitting of students or who makes decisions about and awards FSA funds, and any higher level employee with responsibility for recruitment or admission of students, or making decisions about awarding FSA funds.</p> <p>Enrollment The admission or matriculation of a student into an eligible institution.</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

REQUIRED ELECTRONIC PROCESSES

Schools must be able to use the FSA electronic processes to be considered administratively capable of participating in the FSA programs.

For a school to exchange data with the FSA systems, it must have Internet access through its network or through an Internet service provider. Your school will also need to enroll in the Student Aid Internet Gateway (SAIG) and establish a data mailbox. (Doing this and other tasks related to electronic processing is the most frequent duty for third-party servicers.) Most schools prepare student data records in a software package such as EDEExpress and transmit the records as batch files to the SAIG mailbox. The Department's systems send edited records back to the SAIG mailbox, where the school downloads the records and uses its software to update the records in its own database.

Schools must use COD's common record format, complying with the published schema for the corresponding award year, to send and receive origination and disbursement data for Pell Grants, TEACH Grants, and Direct Loans. This format uses Extensible Markup Language (XML).

To create and edit student records, your school may use the Department's EDEExpress software, develop its own software, or rely on a third-party software vendor. If you are not using EDEExpress software to prepare your records, it is your responsibility to ensure that the software you use is capable of generating COD records in XML format.

As an alternative, you can now create and edit student records directly on many of our websites, such as COD, CPS, and NSLDS. When creating and editing records on the Web, you do not use PC software and you do not have to transmit the changes through your SAIG mailbox.

Electronic processes

34 CFR 668.16 (o)

DCL GEN-04-08, September 2004

Federal Register, 9/14/04, 55418–55420

Systems help

For help with questions about specific systems, such as application processing and software (CPS/SAIG), COD, and NSLDS, see the "Help" link on the Information for Financial Aid Professionals site: www.ifap.ed.gov.

Confirmation of TG Numbers

Every organization enrolled for a Student Aid Internet Gateway (SAIG) account was required to review and validate its assigned TG numbers and Electronic Services user accounts by December 9, 2016.

If you have questions, contact CPS/SAIG Technical Support at 800/330-5947 (TDD/TTY 800/511-5806) or by email at CPSSAIG@ed.gov.

Two-factor authentication (TFA)

For greater security FSA systems use TFA, which employs a token to generate single-use passwords. We encourage users to download the new "soft" token, which is an application for their mobile device, but the "hard" token or key fob is also still available. See the December 29, 2014, electronic announcement. For questions about TFA and tokens, you can contact the CPS/SAIG Technical Support and the TFA Support Center at (800) 330-5947 or by email at TFASupport@ed.gov.

From April to June 2016, TFA is being implemented for the G5 payment system. This TFA is separate from the one using the token described above. See the April 19, 2016, announcement. For questions related to G5, contact the G5 Hotline at 888/336-8930. You may also e-mail them at edcaps.user@ed.gov.

Summary of required electronic processes

To be in compliance with the administrative capability requirements of 34 CFR 668.16(o), a school must

- use the E-App to submit and update the school's eligibility information: (www.eligcert.ed.gov)
- enroll in the Student Aid Internet Gateway (SAIG): (<https://fsawebenroll.ed.gov/>)
- use *FAA Access* or its SAIG mailbox to exchange FAFSA or ISIR data with the Department's Central Processing System: (<https://faaaccess.ed.gov/FOTWebApp/faa/faa.jsp>) or (<https://saigportal.ed.gov/tdcm>)
- use the COD website or its SAIG mailbox to exchange award and disbursement data for Pell Grants, TEACH grants, and Direct Loans: (<http://cod.ed.gov>) or (<https://saigportal.ed.gov/tdcm>)
- use the eCampus-Based (eCB) System to file the FISAP application and report, the Work Colleges application and report, and the report of disbursements made to students with intellectual disabilities in approved Comprehensive Transition and Postsecondary (CTP) programs (see *Volume 6*): (www.cbfsap.ed.gov)
- submit to the National Student Loan Data System (NSLDS) the school's Federal Perkins Loan data, student enrollment records, FSA program overpayments, NSLDS transfer student monitoring records, and Gainful Employment program records (if applicable): (<https://www.nsldsfa.ed.gov>)
- electronically submit the school's annual compliance and financial statement audits and any other required audits: (www.ezaudit.ed.gov)
- use the Default Management website to receive its draft and official cohort default rate data electronically: (ifap.ed.gov/DefaultManagement)
- use the Information for Financial Aid Professionals (IFAP) website to review Dear Colleague Letters, announcements, or Federal Registers: (ifap.ed.gov)

Several of Federal Student Aid's systems, such as COD, eCB, and NSLDS, are located behind the Access and Identity Management System (AIMS), for which users have a single ID and password. From March 7, 2014, on, an ID that has not been used within 90 days will be suspended or, after 365 days, deactivated. See the electronic announcement from 1/24/14 for more information and instructions how to reinstate a suspended or deactivated user ID.

Information for Financial Aid Professionals (IFAP)

Program information is communicated through our IFAP website (ifap.ed.gov) in the form of electronic announcements, Dear Colleague letters, and Federal Registers. One of the most useful features of this website is its notification service, which sends you daily or weekly emails that summarize recent postings to IFAP. (Go to “My IFAP” on the website and select “New User Registration.”)

Even if you use a third-party servicer to manage your student aid activities, you are responsible for knowing about all new statutory, regulatory, and procedural requirements. The IFAP website is a convenient and comprehensive place to get that information.

The IFAP site also has links to all major FSA websites and services and a “Help” link that includes contact information for FSA call centers and customer service offices.

Minimum system requirements

In the past ED has issued the minimum system requirements schools must meet to participate in the Department’s electronic processes. (The most recent issuance was for 2005–2006 and gave an optimal configuration of a 2.8 GHz/333 MHz processor and 80 GB hard drive with a high-speed Internet connection.) When reviewing your office’s computer needs, you should be aware that its system requirements (processor speed, RAM, hard-drive storage, etc.) will depend on which FSA functions the school uses, the number of records processed, and school database interfaces.

SHARING INFORMATION WITH NSLDS, FEDERAL LOAN SERVICERS, AND GUARANTORS

Reporting student enrollment data to NSLDS

Enrollment reporting

34 CFR 682.610 (c) FFEL
 34 CFR 685.309(b) Direct Loans
 DCLs GEN-12-06 and GEN-14-07
 34 CFR 674.16(j) Perkins
 Go to iLibrary > NSLDS Reference Materials on the IFAP website for NSLDS newsletters, updates, and other information. Click on NSLDS User Documentation to get the *Enrollment Reporting Guide*, which has more on reporting enrollment information to NSLDS, including record layouts, error codes, etc.

Reach FSA

A single toll-free number, 1-855-FSA-4-FAA (1-855-372-4322), allows access to FSA's contact centers such as CPS/SAIG technical support, the COD School Relations Center, and the NSLDS Customer Support Center. At this single number you can get more information about the various call centers or connect to the center you need. The individual phone numbers for all the centers remain available, and you can use those to call the centers directly.

Student enrollment information is important, and all schools participating or approved to participate in the FSA programs must have online enrollment access and have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through an enrollment roster file. Enrollment information is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. Program-level enrollment data is also used to determine a student's eligibility for Direct Subsidized Loans. For students moving into repayment, the out-of-school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds. You're required to report changes in the student's enrollment status, the effective date of the status, and an anticipated completion date.

You must report enrollment status at both the school and program level. For this purpose an academic program is defined as the combination of your school's Office of Postsecondary Education Identification (OPEID) number and the program's Classification of Instructional Program (CIP) code, credential level, and published program length. When a student is enrolled in more than one major (or comparable designation under your school's academic policies), each is considered an academic program and is reported separately whether the student receives separate degrees or certificates for each major or only receives one for completing the requirements for all majors. Enrollment in a minor is not a separate program and therefore would not be reported as such. Report a student's "active enrollment status" (full-time, three-quarter time, half-time, and less than half-time) based on the total number of credit or clock hours in which he or she is enrolled at the institution, regardless of whether specific credits apply to the academic program being reported. See DCL GEN-14-17 for examples and more information.

NSLDS will send a roster file electronically to your school or its designated servicer every 60 days (or more frequently depending on your schedule) through its SAIG mailbox. The file includes all of the school's students who are identified in NSLDS as Pell recipients, Perkins Loan, Stafford (Direct and FFEL) Loan borrowers or the beneficiaries of a PLUS loan. The file is not necessarily connected to loans made at your school—it may also report information for students who received some or all of their FSA loans at other schools but are currently attending your school.

Your school or servicer must certify the information and re-turn the roster file within 15 days of receiving it. You may also go to (www.nslsdfap.ed.gov) and update information for your students online. As already noted, you must report enrollment changes within 30 days; however, if a roster file is expected within 60 days, you may provide the updated data on that roster file.

If the roster file that you are returning contains records that don't pass the NSLDS enrollment reporting edits, you will receive a response file with the records that didn't pass. Within 10 days you'll need to make the necessary corrections to these records and resubmit them. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes.

When your school reports enrollment data to the NSLDS, it does not have to complete enrollment reporting rosters received directly from guaranty agencies. Additionally, your school may request that a lender confirm a borrower's enrollment status using NSLDS rather than completing an in-school deferment form.

Updating borrower information at separation

Schools that conduct their own exit counseling rather than have students complete it on studentloans.gov must, within 60 days after the exit counseling session, provide the appropriate federal loan servicer or the guaranty agency for FFEL that is listed in the borrower's student aid records any updated information about: her name, address, references, future permanent address, Social Security number, the identity and address of her expected employer, the address of her next of kin, and her driver's license number and state of issuance. This information may be uploaded with the NSLDS Exit Counseling Submittal template at (www.fsadownload.ed.gov). NSLDS will then provide the data to the appropriate loan holders.

Sharing information about delinquent/defaulted borrowers

To promote loan repayment, schools are encouraged to notify the appropriate Direct Loan servicer with new information about a delinquent borrower's location or employment and to work with defaulted borrowers to bring their loans out of default.

The Direct Loan servicers send electronic reports to participating schools listing all delinquent and defaulted Direct Loan borrowers who took out loans while attending the school. The report, which contains the borrowers' names, addresses, and phone numbers, is organized by the number of days past due so that schools can contact and counsel borrowers to avoid default. Schools can also request delinquency reports through NSLDS (viewable online or for delivery to their TG mailbox) for all their borrowers with any of the DL servicers.

Receiving roster files

A school or its servicer must sign up to receive roster files through the SAIG Enrollment site: (<https://fsaweбенroll.ed.gov/>).

Updating enrollment information on the Web

You can create or update student enrollment status by using the "Enroll" tab on the NSLDS Professional Access site: (<https://www.nslsdfap.ed.gov/>).
Phone support: 1-800-999-8219

Accurate program-level reporting

It is critical to completely and accurately report students' program-level enrollment information to NSLDS. This information is used to determine the subsidy status of loans under the 150% Direct Subsidized Loan Limit and for other purposes. Pay particular attention to correctly reporting published program length, the field for which is a six-digit number with an implied decimal after the third digit. See the electronic announcements from December 23, 2014 and May 13, 2016.

Enrollment status codes

These codes are used for enrollment reporting and are listed in the *Enrollment Reporting Guide*:

F = Full time
Q = At least three-quarter time but less than full time
H = At least half time but less than three-quarter time
L = Less than half time
G = Graduated
W = Withdrawn (voluntary or involuntary)
A = Approved Leave of Absence
D = Deceased
X = Never attended
Z = Record not found

Privacy: sharing student records with lenders

A student authorizes his school to release information to lenders by signing the promissory note as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow as well as locating the borrower. Examples of such information are enrollment status, financial assistance, and employment records. See *Chapter 7* for more information about recordkeeping and privacy.

Loan information from the guarantor

Upon request, the guarantor must inform the school of students in default on FFELs. 34 CFR 682.401(b)(24)

If the lender requests preclaims assistance, the guarantor must inform the school of this request if the school has requested such notification.

34 CFR 682.404(a)(4)

Sec. 428(c)(2)(H) of the HEA

The guarantor must notify the school when a loan made at that school changes hands if the school requests such information.

Sec. 428(b)(2)(F) of the HEA

34 CFR 682.401(b)(25)

Financial aid history

34 CFR 668.19

DCL GEN-00-12

DCL GEN-01-09, July 2001 (including July 16, 2001, update)

Transfer student monitoring

You must verify the eligibility of transfer students for FSA funds. You may either check the student's financial aid history on the NSLDS Professional Access site or wait seven days after you've submitted the student's information for monitoring to receive a response from NSLDS.

To begin using the "inform" feature, you must designate a contact on the "School Transfer Profile" page at (www.nslsdfap.ed.gov).

A former FFEL school may agree to provide the holders of delinquent loans information about delinquent borrowers' location or employment. The school may also try to contact borrowers and counsel them to avoid default.

Former FFEL schools may ask a guaranty agency to provide information about students who were enrolled at the school who have defaulted on their Stafford loans. The guarantor may not charge for this information. The school may also ask the guarantor to notify the school whenever a lender requests default aversion assistance on a loan made at your school, and provide the borrower's name, address, and Social Security number. The guaranty agency may charge a reasonable fee for this service. Your school may only use the information to remind the borrower to repay her loan(s).

If you've requested it, the guaranty agency must also notify your school when loans to its students are sold, transferred, or assigned to another holder. The notification must include the address and telephone number of the new loan holder. This notification requirement only applies to loans that are in the grace period or repayment and only if your school was the last the borrower attended before the loan entered repayment. For instance, if a student received Stafford Loans earning a bachelor's degree at your school but pursued a master's degree at another school before those loans entered repayment, the guarantor is not required to notify you if the loans are sold.

Financial aid history and transfer monitoring

A school must consider a student's financial aid history in making FSA program awards. The regulations require that schools use NSLDS data to obtain information about a student's financial aid history.

To receive a student's financial aid history, your school must register for the Transfer Student Monitoring Process. Through this process, NSLDS will monitor a transfer student's financial aid history and alert you to any relevant changes—other than the default and overpayment information reported in the postscreening process—that may affect the student's current award(s).

You must send NSLDS identifying information (or enter it online) for students transferring to your school so that NSLDS can use transfer monitoring to notify you of changes to their financial aid history. You may send information for students who have expressed an interest in attending your school even if they have not yet formally applied for admission.

You can find a complete discussion of this requirement and the transfer student monitoring process in *Volume 1, Chapter 3*.

SATISFACTORY ACADEMIC PROGRESS (SAP)

To be considered administratively capable, a school must have a satisfactory academic progress policy that is the same as or more strict for an FSA recipient as the school's standards for a student enrolled in the same educational program who is not receiving FSA funds.

Because satisfactory academic progress issues are most often raised in specific student eligibility cases, we discuss the details of SAP standards in *Volume 1, Chapter 1*, of the FSA Handbook. You should carefully review that discussion if your school is developing or amending its SAP policy.

Basic elements of an SAP policy

As discussed in *Volume 1*, a school's policy must include evaluations at least annually for programs longer than one year and every payment period for programs of one year or less. There must be a qualitative component consisting of a minimum grade point average or comparable factor that is measurable against a norm. For programs longer than two academic years, the policy must stipulate that a student must have at the end of the second year a GPA of at least a "C" or its equivalent or have an academic standing consistent with the school's requirements for graduation. There must also be a quantitative component that consists of a maximum time frame in which a student must complete her educational program and a pace of completion that ensures she will complete the program within the time frame.

In addition, your school's policy must explain:

- ♦ the effect of ESL and remedial courses on progress,
- ♦ how progress is measured if a student changes majors or seeks to earn additional degrees,
- ♦ how course repetitions are handled,
- ♦ whether you have appeals for an adverse SAP determination and the procedures for any such appeals, and
- ♦ the procedures for otherwise re-establishing satisfactory progress.

The policy must include provisions for consistent application of the standards to all students within categories (e.g., full-time, part-time, undergraduate, and graduate students) and educational programs established by the school. Generally, the quantitative and qualitative standards used to judge academic progress include all periods of the student's enrollment. Even periods in which the student did not receive FSA funds must be counted.

Satisfactory academic progress

School policy:
34 CFR 668.16(e)
Student eligibility:
34 CFR 668.32(f)
34 CFR 668.34

PROVISIONS FOR U.S. ARMED FORCES MEMBERS AND FAMILY

Definitions for readmission

For purposes of this discussion—

Military service (or service in the uniformed services)—service, whether voluntary or involuntary, in the armed forces, including service by a member of the National Guard or Reserve on active duty, active duty for training, or full-time National Guard duty under federal authority, for a period of more than 30 consecutive days under a call or order to active duty of more than 30 consecutive days. This does not include National Guard service under state authority.

Service member—someone who is a member of, applies to be a member of, performs, has performed, applies to perform, or has an obligation to perform, service in the uniformed services on the basis of that membership, application for membership, performance of service, application for service, or obligation to perform service.

Appropriate officer—A warrant, commissioned, or noncommissioned officer authorized to give such notice by the military service concerned.

In-state tuition rates for active duty service members and family attending public institutions

A public postsecondary school may not charge a member of the armed forces who is on active duty for a period of more than 30 days more than the school's tuition rate for residents of the state. Similarly, the service member's spouse and dependent children are entitled to the in-state tuition rate.

In addition, if the service member, spouse, or dependent child pays the in-state tuition rate, the public institution must allow the person to continue to pay such a rate as long as the individual is continuously enrolled, even if there is a subsequent change in the permanent duty station of the service member to a location outside of the state.

Readmission of service members

A school must promptly readmit a service member with the same academic status as he had when last attending the school or accepted for admission to the school. This requirement applies to any student who cannot attend school due to military service (see the definition in the margin).

The student must notify the school of his military service and intention to return to school as follows:

- ♦ *Notification of military service.* The student (or an appropriate officer of the armed forces or official of the Department of Defense) must give oral or written notice of such service to the school as far in advance as is reasonable under the circumstances. This notice does not have to indicate whether the student intends to return to the school and may not be subject to any rule of timeliness. (Timeliness must be determined by the facts in each case.) Alternatively, at the time of readmission, the student may submit an attestation of military service that necessitated the student's absence from the school. No notice is required if precluded by military necessity, such as service in operations that are classified or would be compromised by such notice.

Definitions for tuition rates for military families

Armed Forces—the U.S. Army, Navy, Air Force, Marine Corps, and Coast Guard.

Active duty—full-time duty in the active military service of the United States. Active duty includes full-time training duty, annual training duty, and attendance, while in the active military service, at a school designated as a service school by law or by the Secretary of the military department concerned. Active duty does not include full-time National Guard duty.

- ◆ *Notification of intent to return to school.* The student must also give oral or written notice of her intent to return to the school within three years after the completion of the period of service. A student who is hospitalized or convalescing due to an illness or injury incurred or aggravated during the performance of service must notify the school within two years after the end of the period needed for recovery from the illness or injury. A student who fails to apply for readmission within these periods does not automatically forfeit eligibility for readmission but is subject to the school's established leave of absence policy and general practices.

A school must designate one or more offices that a student may contact to provide notification of service and notification of intent to return. The school may not require that these notices follow any particular format.

The school must promptly readmit the student into the next class or classes in the program beginning after he provides notice of intent to reenroll, unless he requests a later date or unusual circumstances require the school to admit him at a later date. This requirement supersedes state law—for example, a school must readmit a qualifying service member to the next class even if that class is at the maximum enrollment level set by the state.

The school must admit the student with the same academic status, which means:

- ◆ to the same program to which the student was last admitted or, if that exact program is no longer offered, the program that is most similar to that program, unless she chooses a different program;
- ◆ at the same enrollment status, unless the student wants to enroll at a different enrollment status;
- ◆ with the same number of credit hours or clock hours previously completed, unless the student is readmitted to a different program to which the completed credit hours or clock hours are not transferable, and
- ◆ with the same academic standing (e.g., with the same satisfactory academic progress status) the student previously had.

Termination for bad conduct

A student's readmission rights terminate in the case of a dishonorable or bad conduct discharge, general court-martial, federal or state prison sentence, or other reasons as described in 34 CFR 668.18(h).

Reasonable efforts to help prepare student

If the school determines that the student is not prepared to resume the program with the same academic status at the point where she left off or will not be able to complete the program, the school must make reasonable efforts at no extra cost to help her become prepared or to enable her to complete the program. This includes providing refresher courses and allowing the student to retake a pretest at no extra cost.

The school is not required to readmit the student if it determines

- that there are no reasonable efforts it can take to prepare her to resume the program at the point where she left off or to enable her to complete the program, or
- that after it makes reasonable efforts (those that do not place an undue hardship on the institution), the student is not prepared to resume or complete the program.

"Undue hardship" means an action requiring significant difficulty or expense when considered in light of the overall financial resources of the institution and the impact otherwise of such action on the operation of the institution.

The school has the burden to prove by a preponderance of the evidence that the student is not prepared to resume the program with the same academic status at the point where she left off or that she will not be able to complete the program.

If the student is readmitted to the same program, for the first academic year in which he returns, the school must assess the tuition and fee charges that he was or would have been assessed for the academic year during which he left the school. However, if his veterans education benefits or other service member education benefits will pay the higher tuition and fee charges that other students in the program are paying for the year, the school may assess those charges to the student as well.

If the student is admitted to a different program, and for subsequent academic years for a student admitted to the same program, the school must assess no more than the tuition and fee charges that other students in the program are assessed for that academic year.

The cumulative length of the absence and of all previous absences from the school for military service may not exceed five years. Only the time the student spends actually performing service is counted. See the next page for additional rules pertaining to cumulative length of absence.

Readmission for service members—additional information

34 CFR 668.18 (a) General

(3) This section applies to an institution that has continued in operation since the student ceased attending or was last admitted to the institution but did not begin attendance, notwithstanding any changes of ownership of the institution since the student ceased attendance.

(4) The requirements of this section supersede any State law (including any local law or ordinance), contract, agreement, policy, plan, practice, or other matter that reduces, limits, or eliminates in any manner any right or benefit provided by this section for the period of enrollment during which the student resumes attendance, and continuing so long as the institution is unable to comply with such requirements through other means.

668.18 (e) Cumulative length of absence.

For purposes of paragraph (c)(1)(ii) of this section, a student's cumulative length of absence from an institution does not include any service—

- (1) That is required, beyond five years, to complete an initial period of obligated service;
- (2) During which the student was unable to obtain orders releasing the student from a period of service in the uniformed services before the expiration of the five-year period and such inability was through no fault of the student; or
- (3) Performed by a member of the Armed Forces (including the National Guard and Reserves) who is—
 - (i) Ordered to or retained on active duty under—
 - (A) 10 U.S.C. 688 (involuntary active duty by a military retiree);
 - (B) 10 U.S.C. 12301(a) (involuntary active duty in wartime);
 - (C) 10 U.S.C. 12301(g) (retention on active duty while in captive status);
 - (D) 10 U.S.C. 12302 (involuntary active duty during a national emergency for up to 24 months);
 - (E) 10 U.S.C. 12304 (involuntary active duty for an operational mission for up to 270 days);
 - (F) 10 U.S.C. 12305 (involuntary retention on active duty of a critical person during time of crisis or other specific conditions);
 - (G) 14 U.S.C. 331 (involuntary active duty by retired Coast Guard officer);
 - (H) 14 U.S.C. 332 (voluntary active duty by retired Coast Guard officer);
 - (I) 14 U.S.C. 359 (involuntary active duty by retired Coast Guard enlisted member);
 - (J) 14 U.S.C. 360 (voluntary active duty by retired Coast Guard enlisted member);
 - (K) 14 U.S.C. 367 (involuntary retention of Coast Guard enlisted member on active duty); or
 - (L) 14 U.S.C. 712 (involuntary active duty by Coast Guard Reserve member for natural or man-made disasters);

(ii) Ordered to or retained on active duty (other than for training) under any provision of law because of a war or national emergency declared by the President or the Congress, as determined by the Secretary concerned;

(iii) Ordered to active duty (other than for training) in support, as determined by the Secretary concerned, of an operational mission for which personnel have been ordered to active duty under section 12304 of title 10, United States Code;

(iv) Ordered to active duty in support, as determined by the Secretary concerned, of a critical mission or requirement of the Armed Forces (including the National Guard or Reserve); or

(v) Called into Federal service as a member of the National Guard under chapter 15 of title 10, United States Code, or section 12406 of title 10, United States Code (i.e., called to respond to an invasion, danger of invasion, rebellion, danger of rebellion, insurrection, or the inability of the President with regular forces to execute the laws of the United States).

668.18 (g) Documentation.

(1) A student who submits an application for readmission to an institution under paragraph (c)(1)(iii) of this section shall provide to the institution documentation to establish that—

- (i) The student has not exceeded the service limitation in paragraph (c)(1)(ii) of this section; and
- (ii) The student's eligibility for readmission has not been terminated due to an exception in paragraph (h) of this section.

(2)(i) Documents that satisfy the requirements of paragraph (g)(1) of this section include, but are not limited to, the following:

- (A) DD (Department of Defense) 214 Certificate of Release or Discharge from Active Duty.
- (B) Copy of duty orders prepared by the facility where the orders were fulfilled carrying an endorsement indicating completion of the described service.
- (C) Letter from the commanding officer of a Personnel Support Activity or someone of comparable authority.
- (D) Certificate of completion from military training school.
- (E) Discharge certificate showing character of service.
- (F) Copy of extracts from payroll documents showing periods of service.
- (G) Letter from National Disaster Medical System (NDMS) Team Leader or Administrative Officer verifying dates and times of NDMS training or Federal activation.

(ii) The types of documents that are necessary to establish eligibility for readmission will vary from case to case. Not all of these documents are available or necessary in every instance to establish readmission eligibility.

(3) An institution may not delay or attempt to avoid a readmission of a student under this section by demanding documentation that does not exist, or is not readily available, at the time of readmission.

Executive Order 13607

For the text of the executive order, see (www.whitehouse.gov/the-press-office/2012/04/27/executive-order-establishing-principles-excellence-educational-instituti).

See also DCLs GEN-12-10, 12-12, 12-17, and 13-05 and the electronic announcements issued September 11, 2012, and January 18, 2013.

Executive Order 13607: Principles of Excellence

On April 27, 2012, the White House issued EO 13607, which created the Principles of Excellence for Educational Institutions Serving Service Members, Veterans, Spouses, and Other Family Members. The principles apply to all postsecondary schools that receive funding from federal military and veterans educational benefits programs. They strengthen consumer protections for students who receive these benefits and provide access to information to help them make informed choices about their college education. Adoption of the principles is voluntary but encouraged.

The principles describe requirements in the following key areas: (1) providing a standardized cost form, (2) providing federal aid information, (3) aggressive and fraudulent recruiting, (4) state authorization, (5) misrepresentation, (6) incentive compensation, (7) accreditation, (8) readmission, (9) refunds, (10) individual education plans, and (11) academic and financial counseling points of contact.

Title IV schools are likely already complying with many of the principles through their participation in the Title IV programs (for example, the refund requirement). One principle requires institutions to provide affected students with a personalized and standardized form describing the students' educational costs and how those may be covered by financial aid. The Financial Aid Shopping Sheet, released by the Department in July 2012, helps institutions satisfy that principle.